FARMERS' NEWSLETTER
Livestock

April 80/L-17

A lot of cattlemen will be watching stocker-feeder cattle prices this spring.

- Feeder cattle producers will be deciding whether to sell yearling and fall calves now or to hold them over on pasture 'til fall.

- Stocker operators who buy lighter weight feeders at the start of the grazing season and carry them into fall as yearling and long yearling feeders must consider expenses and likely selling prices.

- Cattle feeders too must decide the price they can bid for feeder cattle given feeding expenses and the fed cattle prices they expect next fall.

The decisions these operators make will determine feeder cattle prices, when feeder cattle come to market, and the profits or losses each may realize.

Before taking a closer look at the prospects facing each operator, let's look at the situation and outlook in general.

Higher Prices and Costs; More Feeder Cattle

First, remember that demand for feeder cattle is ultimately determined by fed cattle prices, the cattle feeder's ability to pay, future price expectations, and the feeder cattle supply.

It appears that much of the real (non-inflationary) increase in cattle prices during the new cattle cycle we've now entered has already occurred. Typically, prices gather strength as the previous cycle draws to a close, and carry this increase over into the next one.

Large broiler supplies and increased pork supplies beginning last May have served to hold down retail beef prices. Also, some slowing in real income growth reduced consumers' ability to pay for beef, which costs more than pork or poultry. These conditions are expected to continue in 1980.

Even though beef production will decline for the fourth straight year in 1980, total red meat and poultry supplies will rise further and continue to hold down livestock price gains. Nonetheless, expect some price increases.

Fed cattle prices are likely to rise throughout 1980 due to further reductions in supplies, but average in the low $70's, compared with last year's $68. Prices averaged about $67 in the first quarter and are expected to increase only into the lower $70's for the remainder of the year.

Higher costs will absorb much of this price gain so there will be little additional support for feeder cattle prices.

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The next livestock newsletter is scheduled for early September.

Feeder cattle supplies, while below the large numbers of recent years, appear adequate for increased placements on feed, particularly next fall. Also, supplies are up from a year ago due to reduced placements in second-half 1979 and continued lower calf slaughter. As 1980 began, there were 1 percent more feeder cattle outside feedlots than a year earlier.

Also, because of more heifers calving for the first time, the 1980 calf crop should increase, something that hasn't happened since 1974. Many of these calves will enter the feeder cattle supply this fall. The larger supplies should then begin to further moderate price increases for feeder cattle, particularly for yearlings.

Cattle inventories are still about 20 percent or 21 million head below the 1975 record. While additional cropland pasture has shifted back to crops since then, most cattlemen still have excess grazing capacity. Pasture and ranges are in good condition due to reduced grazing pressures over the last 2 years, and excellent weather in most regions.

Look for feed grain prices to average a little above year-earlier levels, with the U.S. farm price of corn expected to average $2.30 to $2.50 a bushel during the current crop year ending in September, compared with $2.25 the year before.

However, you'll want to check April planting intentions, the June Acreage report showing actual plantings, and growing conditions as the year progresses. Also, watch foreign grain demand and supply conditions closely.

Other production costs will continue to rise, particularly energy-related items such as hauling and pasture improvements. In addition, short term interest charges are now much higher than the roughly 10.5 percent of a year ago.

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Feed Facts

- Hay stocks on January 1 were record large.

- Livestock entered March in fair to mostly good condition, but cold weather forced producers in many areas to continue supplemental feeding.

- The farm price of corn is expected to average $2.35 to $2.45 during first-half 1980.

- Soybean meal supplies are adequate, with prices expected to average $175 to $180 per ton through June.

- Cold temperatures in late January and early February checked pasture growth in winter grazing areas. Wheat pasture rated fair to good in most areas.

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Prospects for Cow-Calf Operators

Calves from the 1978 crop kept for grazing last summer worked out well because underutilized pastures and good forage growth led to excellent weight gains. However, prices declined from early spring 1979 through late summer and early fall. Prepare yourself for a similar price pattern this year.

Many of you held back additional replacement heifers last year for calving this spring. More heifers will be held back this year as you move toward normal stocking rates. These additional cattle will place greater demands on grazing lands, and forage growth may not be as good.

The number of feeder cattle offered for sale probably will be larger this fall than last. Thus, this spring, you may want to consider selling a good share of your 1979 calves when you see any sizable price increase,

STOCKERS' BUDGET

Item	1979	1980 Example	Yours
		Dollars	
Returns[1]	533.00	552.50	---
Cost:			
Deathloss[2]	15.98	16.58	---
Interest[3]	20.67	32.48	---
Other charges[4]	39.00	46.00	---
Subtotal	75.65	95.06	---
Stocker steer[5]	472.50	472.50	---
Total costs	548.15	567.56	---
Profit or loss	-15.15	-15.06	---

[1] 650 lbs. (sales weight 663 lbs. less 2 percent shrink) at $82 per cwt. in 1979, $85 in 1980. [2] 3 percent os sales weight (returns). [3] Interest on stocker steer purchase price for 6 months at 10.5 percent in 1979, 16.5 percent in 1980. [4] Includes $14 cash grazing costs in 1979 and $16 in 1980. Your costs are likely to differ. [5] 450 lbs. at $105 per cwt., both 1979 and 1980.

rather than carrying them over for sale as yearlings this fall.

You may also consider placing your calves in custom feedlots, particularly if interest rates keep rising and force feeder cattle prices even lower.

. . .And for Stockers

Prospects aren't bright, particularly if light feeder cattle approach $100 to $105 again this spring at peak grass demand, or if the outlook worsens for fed cattle prices this summer and fall when you'll be selling these yearlings.

Now is the time in the cattle cycle when it becomes more attractive for you to consider raising your own feeder cattle rather than buying and growing them out on pasture.

The stocker budget table above gives a general description of specific costs for the 1979 grazing season and prospects for 1980. The 450-pound stocker-feeder steer cost about $473 last year; interest rates at 10.5 percent for 5 months added nearly $21 to costs.

Veterinary and medicine charges, hauling, marketing fees, fuel and energy costs, repairs and overhead charges added another $25.

In early October this 650-pound yearling sold for $82 per cwt., or $533. Death loss assumed at 3 percent reduced returns by $16 per head sold (3% x $533). Individual cost situations vary, but generally, the returns to labor, management, and investments were not favorable in 1979.

The budget provides space for 1980 cost estimates. As an example, the same feeder cattle cost--$105 per cwt.--is used again, but this fall's yearling sales price was estimated at $85 per cwt. as an example.

However, interest costs have increased sharply--16.5 percent was used in these examples--adding another $12 to financing costs in 1980. Other charges may rise too. Therefore, even with the higher selling price, stocker operators still could not expect to break even.

CATTLE FEEDERS' BUDGET

Item	1979	1980 Example	Yours
		Dollars	
Returns for fed steer[1]	691.57	792.00	---
Cost:			
Deathloss[2]	8.12	7.74	---
Feed cost	224.30	239.00	---
Interest[3]	34.32	51.43	---
Other charges[4]	30.96	34.11	---
Subtotal	297.70	332.28	---
Feeder steer[5]	541.56	504.00	---
Total costs	839.26	836.28	---
Profit or loss:			
Total per head	-147.69	-65.40	---
Total per cwt. sold	-13.99	-6.19	---
Above feed and feeder cost	-74.29	27.88	---

[1] 1,056 lbs. (sales weight 1,100 lbs. less 4 percent shrink) at $65.49 per cwt. in 1979, $73 per cwt. in 1980. [2] 1.5 percent of feeder steer purchase price. [3] Interest on feeder cattle purchase and one-half the feed cost for 6 months at 10.5 percent in 1979, 16.5 percent in 1980. [4] Transportation, purchase and marketing charges, vet medicine, feed handling, and management. [5] 600 lbs. at $90.26 per cwt. in 1979, $84 in 1980.

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Insert your own cost estimates when you're ready to buy as a basis for making decisions. Carefully assess yearling feeder cattle price prospects for the fall and current feeder cattle prices when estimating your returns, and don't forget to figure in death loss. Stocker-feeder calves averaged about $90 per cwt. in March, while 600-700 pound yearlings were averaging about $78.

Cattle Feeding Prospects Also Dim

The cattle feeding budget will help feeders estimate 1980 costs and the prices they can pay for feeder cattle to avoid losses like those of last fall. The budget covers 600-pound feeder steers purchased in April and sold the following October.

In 1979, typical returns were $691.57 per head. Costs totaled $839. As indicated, this program failed to cover total costs by nearly $148 per head. Moreover, fed cattle sold in October failed to cover feed and feeder cattle costs by $74.29.

Use the budget column for 1980 to estimate costs and returns for your situation. Remember, most costs are expected to increase, particularly interest rates, which could add over $17 to costs.

Using these figures for feed, interest, and other charges (or your own figures if you have them) estimate the necessary breakeven situation. In the example budget, feeder cattle are purchased in April for $86 per cwt. and sell for $73 in October. Feeders following this program would again lose money, but would cover feed and feeder cattle costs with $28 to apply against remaining charges.

Add your own costs and feeder cattle prices when you're ready to buy, and then estimate the fed cattle price needed to break even. Here are two general rules of thumb:

- Each 25-cents-per-bushel increase in corn prices reduces the price you can pay for yearling feeder cattle by $2 per cwt.
- Each $5 increase in fed cattle prices allows you to pay about $9 more for feeder cattle.

Remember these figures are only guides and the cost can vary between cattle feeders, as well as time of purchase. Again, be careful regarding feeder cattle prices--they're usually most volatile upwards in the spring.